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BAHAMAS-CARIBBEAN DEVELOPMENT CORPORATION LIMITED

Subsidiary and Associated Companies

(Formerly Grand Bahama Industries Limited)

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1966

BAHAMAS - CARIBBEAN DEVELOPMENT CORPORATION LIMITED

391 Adelaide Street East, Toronto, Ontario

DIRECTORS AND OFFICERS

G. W. RUTLEDGE, Montreal, Quebec - - - - - *Chairman of the Board of Directors*

F. H. STREAN, Toronto, Ontario - - - - - *Deputy Chairman of the Board*

W. V. MACINNES, Freeport, Grand Bahama - - - - - *President and Director*

R. A. DAVIES, Q.C., Toronto, Ontario - - - - - *Secretary*

W. G. E. LANNAMAN, Montreal, Quebec - - - - - *Treasurer and Assistant Secretary*

P. N. THOMSON, Montreal, Quebec - - - - - *Director*

J. G. BRYAN, London, England - - - - - *Director*

D. S. BEATTY, Toronto, Ontario - - - - - *Director*

A. B. GILL, Montreal, Quebec - - - - - *Director*

R. DEWOLFE MACKAY, Q.C., Montreal, Quebec - - - - - *Director*

W. I. M. TURNER, JR., Montreal, Quebec - - - - - *Director*

D. S. PATTERSON, Montreal, Quebec - - - - - *Director*

To the Shareholders:

On behalf of the Board of Directors we present the report and consolidated financial statements of Bahamas-Caribbean Development Corporation Limited (formerly Grand Bahama Industries Limited) and its subsidiary and associated companies for the fiscal year ended September 30, 1966.

FINANCIAL RESULTS FOR 1965-66

Net operating loss of all the consolidated companies for the twelve months ended September 30, 1966 is \$623,-716 or 12.5¢ per share. This compares with a profit of \$203,306 or 10.3¢ per share for the previous fiscal year.

You will recall that a letter to shareholders dated August 26, 1966 reported that losses in the first six months of the fiscal year amounted to \$216,056, most of which was attributed to Grand Bahama Builders Limited and Grand Bahama Millwork & Building Supplies Limited. In the second half of the year, Grand Bahama Builders continued to sustain losses on contracts entered into earlier in the year. The new hotel, Oceanus North, while breaking even in the first half of the fiscal year (October to March), was seriously affected in the second half (April to September) by the low revenue summer months and the airline strike in the United States, and incurred a substantial loss in this period. Grand Bahama Millwork & Building Supplies on the other hand became profitable on a monthly basis early in the second half and came close to wiping out the deficit it had incurred earlier in the year. Grand Bahama Builders was wound up as at September 30th, 1966 and has no further contracts. The completion of the Oceanus South (Ocean House) is under the direction of the Company's wholly owned subsidiary, Sun and Sea Estates Limited, which owns the property.

This year's statements also record a write-off of intangible assets and deferred charges to the deficit account in the amount of \$611,688. These charges include all the organization and development expenses to date and all the pre-opening expenses incurred in connection with both hotels up to September 30, 1966. They also include a write-off of certain costs incurred in connection with raising capital funds and a write-down of an investment in a subsidiary company. They would normally have been amortized over a period of five years, but your directors considered it prudent to accelerate the write-off of these charges so that future years' earnings will not be adversely affected by these charges.

CURRENT YEAR'S PROSPECTS

With respect to the current year, the effect of management re-organization, better reports and tighter controls began to show some effect in the first quarter and most of the smaller service companies are reporting profits and their operating results appear to be on an upward trend. Oceanus North is expected to be profitable in this fiscal year and the apartment building, Bellevue Court, is now 100% occupied and profitable. Nevertheless, the newest apartment-hotel, Oceanus South, will undoubtedly incur losses in its first year of operations, which will depress the current year's earnings.

As you know, your company owns all the shares of a Bahamian company, Greater Freeport Industries Limited, which in turn has twelve subsidiary or affiliated companies. These companies have been grouped into two divisions — a hotel and real estate division and a service company division, each with separate management. The companies included in each division are set out below, together with the percentage interest held in each:

HOTEL AND REAL ESTATE DIVISION

Bellevue Bahamas Limited (apartment building)	49%
Oceanus Hotel Limited (Oceanus North)	100%
Sun and Sea Estates Limited (Oceanus South)	100%
Grand Bahama Charter Boats Ltd. (Leased to operator)	85%
Hawksbill Industries Limited (Sewage treatment)	100%

170
140 rooms + 32
apartment
total rooms.
170

SERVICE COMPANIES

Grand Bahama Millwork & Building Supplies Limited	100%
Grand Bahama Bakery Limited	50%
Grand Bahama Dairy Products Limited	100%
Grand Bahama Tire & Automotive Services Limited	100%
Lucaya Nursery & Landscaping Limited	100%
Grand Bahama Theatres Limited (Drive-in theatre, enclosed theatre and controlling C.A.T.V. Limited, Night 'N Day T.V. Ltd. and Sea T.V. Limited)	33 1/3 %
The D'Albenas Agency (Grand Bahama) Ltd. (Wholesale food operation)	40%

FREEPORT'S GROWTH

The Freeport area continues to grow at a spectacular rate. Some idea of the past and expected growth can be gained from reviewing the following statistics:

STATISTICS ON FREEPORT, GRAND BAHAMA ISLAND

	1963	1964	1965	1966	1970*
Freeport population	1,830	4,700	8,500	13,500	45,000
Grand Bahama Island population (total island including Freeport)	9,500	13,500	23,000	29,000	85,000
Tourist arrivals — Freeport	26,000	109,000	196,000	277,000	500,000
Hotel rooms — Freeport	35	489	1,841	2,262	4,500

* Estimated

A second casino was opened January 1, 1967 and the International Shopping Bazaar should be in full operation by March 1967. Efforts are being made to increase the number of direct jet flights to Freeport within the next year. If the present applications are approved, there should be four to five daily jet flights direct from cities in the north east United States to Freeport for the next winter season, in addition to the existing direct flights. Every indication points to a very good 1967/68 tourist season.

In January the voters of the Bahamas went to the polls to elect a government for the second time since internal self-government was granted in 1962. By this democratic process the former opposition party, the Progressive Liberal Party, came to power with The Hon. Lynden O. Pindling as the new Premier. This change is a positive step in the evolution of self-government.

While it is too early to assess the possible effects of this change, we are confident that the new government will continue to provide a healthy, economic environment to encourage responsible investors such as ourselves to participate in the country's development and growth. We foresee no let-up in the very rapid growth of tourism for the islands and with the emergence of the large new jumbo jets, the growth in tourism could well be accelerated over the next few years.

FUTURE PROSPECTS

This is the fifth fiscal year that the directors have reported on your company. From the time of commencement of operations in 1962, your company has grown at a very rapid rate. To best illustrate this, it can be stated that your company's investment in assets has grown from \$394,000 at the end of the first fiscal year in 1962, to over \$11,000,000 at September 30, 1966.

In the formative years, the great concentration of effort was in the establishment and purchase of service companies. It is interesting to report that one by one, they have now almost all become profitable operations and will contribute to the company's earnings this year. In the year 1965, a transition was commenced into a much broader-based company with a substantial investment being undertaken directly into hotel and apart-

ment real estate. Your company weighed the much greater risk that this step involved and calculated that while it might initially incur losses of some magnitude, the overall benefit in the long-term profit picture would be greatly enhanced.

While the loss reported for this past fiscal year was a substantial one, it should be remembered that the phase undertaken which was mainly responsible for this loss, is now nearing completion. It is reasonable to be optimistic about this current fiscal year, even though we are still in the final stage of this transitional period. In the following year most areas of operation should start to contribute to profits commensurate with the capital employed.

Respectfully submitted,

GEORGE W. RUTLEDGE
Chairman of the Board

WILLIAM V. MACINNES
President

consolidated balance sheet as at September 30, 1966

(Expressed in

ASSETS

Current assets

Cash	\$ 1,914,865
Accounts receivable	692,069
Inventories, at lower of cost or net realizable value	517,856
Prepaid expenses	104,202
	<u>3,228,992</u>

Property, plant and equipment, at cost less accumulated depreciation — Note 2	7,599,245
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Investment in and advances to associated companies

	Shares at cost	Advances	
The d'Albenas Agency (Grand Bahama) Limited — representing 40% interest	\$ 1,120	\$133,383	
Grand Bahama Theatres Limited — representing 33⅓ % interest	9,887	98,002	
Other investments	13,340	—	
	<u>\$24,347</u>	<u>\$231,385</u>	255,732

Other assets, at cost

Real estate held for resale	\$114,366	
Second mortgages receivable	12,817	
	<u>127,183</u>	

Excess cost of shares in consolidated subsidiaries over value assigned to their tangible assets	302,605
	<u>\$11,513,757</u>

The accompanying explanatory notes a

ates Dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities

Bank indebtedness	\$ 596,409
Demand note	32,416
Accounts payable and accrued	1,293,778
Current portion of long-term debt (Note 3)	621,154
	<u>2,543,757</u>
Long-term debt, non-current portion (Note 3)	5,452,180
Minority interest	392,328

Shareholders' equity — Note 5

Capital stock

Authorized

500,000 6% cumulative participating voting preference shares
with a par value of \$1 Canadian

7,000,000 common shares without par value

Issued

500,000 preference shares \$ 466,665

4,456,348 common shares 3,754,728

4,221,393

Deficit 1,095,901

\$ 3,125,492

On behalf of the Board

(Signed) GEORGE W. RUTLEDGE, Director

(Signed) WILLIAM V. MACINNES, Director

\$11,513,757

eral part of these financial statements.

BAHAMAS-CARIBBEAN DEVELOPMENT CORPORATION LIMITED

Subsidiary and Associated Companies — Note 1
(Formerly Grand Bahama Industries Limited)

consolidated statement of deficit for the year ended September 30, 1966

(Expressed in United States Dollars)

Retained earnings, October 1, 1965 (Canadian \$164,473)		\$ 153,503
Loss for the year	\$623,716	
Dividends paid — preference shares	14,000	
Special charges (Note 6)	<u>611,688</u>	
		1,249,404
Deficit, September 30, 1966		<u><u>\$1,095,901</u></u>

consolidated statement of earnings for the year ended September 30, 1966

(Expressed in United States Dollars)

Earnings before the following		\$ 41,782
Deduct:		
Depreciation	\$320,301	
Interest	<u>381,839</u>	
		702,140
		660,358
Minority interest share of losses		36,642
Loss for the year		<u><u>\$ 623,716</u></u>

auditors' report under the laws of the Province of Ontario

The Shareholders,

BAHAMAS-CARIBBEAN DEVELOPMENT CORPORATION LIMITED.

We have examined the accompanying consolidated balance sheet of Bahamas-Caribbean Development Corporation Limited (formerly Grand Bahama Industries Limited) as at September 30, 1966 and the consolidated statements of earnings and deficit for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the company as at September 30, 1966 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles which, except for the change outlined in Note 6 to the financial statements (which we approve), were applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
December 6, 1966.

TOUCHE, ROSS, BAILEY & SMART
Chartered Accountants.

BAHAMAS-CARIBBEAN DEVELOPMENT CORPORATION LIMITED

Subsidiary and Associated Companies — Note 1

(Formerly Grand Bahama Industries Limited)

explanatory notes to consolidated financial statements as at September 30, 1966

(Expressed in United States Dollars)

1. PRINCIPLES OF CONSOLIDATION

The principle followed has been to consolidate all wholly owned subsidiaries, all subsidiaries in which the company has a majority interest and the following associated companies for which the company provides management and other services:

COMPANY	SHARE INTEREST
Grand Bahama Bakery Limited	50%
Bellevue Bahamas Limited	49%

The accounts of certain subsidiaries are maintained in Bahamian dollars which for purposes of these statements have been translated into United States dollars at the rate of B\$1.00 = U.S.\$98.

2. PROPERTY, PLANT AND EQUIPMENT

Land and land improvements	\$ 331,522
Buildings, leaseholds and licences	472,879
Automotive equipment	192,924
Equipment	344,249
Nursery	23,157
Bellevue Court	2,287,565
Oceanus North	2,728,505
Oceanus South	1,677,798
	<u>8,058,599</u>
Accumulated depreciation	459,354
	<u>\$7,599,245</u>

Oceanus North opened for occupancy in December 1965 and Oceanus South is scheduled to open in mid-1967.

3. LONG-TERM DEBT

6½ % Sinking Fund Debentures, Series A, maturing March 1, 1977, first sinking fund payment of Canadian \$35,000 due March 1, 1967 (Canadian \$700,000)	\$ 653,330
8% Mortgage — payable in monthly installments and due November 8, 1972	23,751

8½ % Mortgage — payable in equal monthly installments over a five-year period; final payment due June 30, 1971	28,011
6% Notes — payable in two equal installments commencing June 1, 1967	17,712
6% Note — payable over a four-year period. Final payment October 16, 1968	150,000
Loan from RoyWest Banking Corporation Limited	700,000
6% Mortgage payable due March 31, 1976 with principal payable in monthly installments of \$12,733	1,452,184
6% Mortgage payable due March 31, 1977 with principal payable in monthly installments of \$13,333	1,520,002
Bank loans	
Sun and Sea Estates Limited	1,430,344
Bahamas-Caribbean Development Corporation Limited	98,000
	<hr/>
	6,073,334
Current portion of long-term debt	621,154
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	<u>\$5,452,180</u>

The company is contingently liable for \$616,000 under guarantees given jointly and severally with others to a Canadian chartered bank for loans to be made to Sun and Sea Estates Limited.

4. SHAREHOLDERS' EQUITY

During the year the company obtained supplementary letters patent altering the authorized capital by:

- (1) increasing the authorized capital of the company by the creation of an additional 4,800,000 common shares without par value; and
 - (2) changing the name of the company to Bahamas-Caribbean Development Corporation Limited.
- Subsequently, the company issued 2,986,748 common shares as follows:
- (1) 12,500 common shares were issued under option to two officers of the company for \$11,667 cash.
 - (2) 496,074 common shares were issued as consideration for the purchase by the company of assets having an aggregate value of \$673,116.
 - (3) 2,478,174 common shares were issued for an aggregate cash consideration of \$1,850,363.

The Trust Deed relating to the 6½ % Sinking Fund Debentures, Series A, restricts the payment of dividends on common shares unless consolidated earned surplus of the company and its subsidiaries is in excess of Canadian \$500,000.

The company has granted options to two officers of the company in respect of an aggregate of 25,000 common shares of the company exercisable in successive periods to June 30, 1968 at an option price of Canadian \$1 per share.

Dividends in arrears — dividends aggregating \$.03 a share, or a total of \$14,000 on the 6% cumulative participating voting preference shares were in arrears at June 30, 1966.

5. COMMITMENTS

By virtue of an agreement with Southair Bahamas Limited for the financing of the construction and operation of Oceanus South (an apartment/hotel complex owned by Sun and Sea Estates Limited), the company has agreed to purchase at par Subordinated Convertible Income Debentures of Sun and Sea Estates Limited as follows:

- (1) up to \$96,500 principal amount as and when required by Sun and Sea Estates Limited.
- (2) up to \$50,000 principal amount in the event that the capital cost of Oceanus South exceeds the sum of \$3,500,000.
- (3) up to \$50,000 principal amount in the event that the cash operating losses (after provision for principal repayments on the mortgage loan from the Royal Bank of Canada) of Oceanus South during its first two full years of operation shall exceed \$150,000.

The capital expenditures authorized to complete the construction of the apartment/hotel complex amount to \$2,500,000.

6. SPECIAL CHARGES

It has been the policy of the company to defer organization and development costs, pre-opening expenses incurred relating to the hotel operations and certain costs incurred in connection with the raising of capital funds. A program was developed for the amortization of these costs over a period not to exceed five years.

Management has deemed it prudent to accelerate the amortization of these deferred charges. Accordingly, the entire remaining unamortized costs at September 30, 1966 amounting to \$561,688 have been charged off in 1966. In addition the company has provided for the write-down of the investment in a subsidiary company in the amount of \$50,000 which is included with the amount of \$611,688 special charges.

